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Report Highlights: *This report contains detailed information on how to import food products into the Czech Republic, market prospects, and points of contact.*

The economic outlook for 2002 is positive and growth of around 3% is expected. The Czech Republic is becoming a wealthier market and the standard of living and per capita disposable income is the highest of any EU accession candidate. Duties imposed on agricultural imports are transparent and obligations in the WTO are generally being observed. A new biotechnology food labeling law is hurting some U.S. exporters.

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I. MARKET OVERVIEW

Economic Situation

Agricultural trade in 2000 accounted for \$1.6 billion in imports and \$1.1 billion in exports. Last year the Czech Republic exported \$11.7 million worth of agricultural products to the U.S. and imported American products worth \$64 million. About half of the imported food and agricultural products from the U.S. are beverages and tobacco.

	1996	1997	1998	1999	2000	2001 (est.)	2002 (est.)
GDP (in bill. \$, current prices)	42.4	45.4	49.6	51.0	53.0	57.0	61.4
GDP per capita (in \$) (population 10 mil.)	4240	4540	4960	5100	5300	5700	6140

Inflation (in %)	8.8	8.5	10.7	2.1	3.9	5.1	4.6
Unemployment (in %)	3.9	4.8	6.5	8.7	8.8	8.0	7.7

Source: Ministry of Finance (www.mfcr.cz)

The Czech Role in the Region's Economy

The Czech Republic's central location makes it an excellent hub for transshipment to other member states of the Central European Free Trade Agreement¹, Russia, the NIS and Europe. Integrating the Czech economy into the West, specifically into the EU, remains a government priority. The Czech Republic began negotiations on EU accession in March 1998 and has set a target of 2003 to be prepared for EU entry. In practice, this means harmonizing Czech laws and standards with those of the EU. In the meantime, the Czech Republic benefits from access to EU markets under an Association Agreement with the EU.

Upgrading the nation's infrastructure, especially telecommunications and transportation, is critical for continued economic growth and development. The quality of the Czech transportation network is somewhat below western European standards and all of the transport sectors, including railway, highway, inland waterway and air, are being upgraded. Projects currently include a \$3.5 billion modernization of the rail system (with priority being giving to the Czech section of the Berlin-Prague-Vienna line); a plan to modernize and extend the country's highway network; and plans to expand the use of the river transport system for containerized cargo.

¹ Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria and Romania

The effects of the economic situation on sales of U.S. products

Due to improving economic conditions, demand for luxury products has increased even though price still remains a significant factor. There is a niche market for some high quality U.S. products, which are listed in Section IV.

The United States is the third largest investor in the Czech Republic, behind Germany and the Netherlands. Among the American food companies that have established their offices in the Czech Republic are: Coca Cola, Pepsi Cola (General Bottlers), Sara Lee, Kraft, Philip Morris, R.J. Reynolds, Heinz, Master Foods, McDonald's, Kentucky Fried Chicken, Pizza Hut, American Grill and others. The following table shows imports of major agricultural and food products to the Czech Republic and the percentages of these imports that come from the U.S. on selected commodities:

Imports to the Czech Republic in 2000:

HTS Number	Item	Czech total import in MT	U.S. share in % (compared in volume)	Czech total import in mil. USD
0802	Nuts	3,946	35	11.7
1005	Corn	31,675	0.5	10.6
1006	Rice	55,190	0.9	15.9
2204	Wine	66,408	0.1	26.9
2208	Spirits and liqueurs	15,291	10.6	27.6
2309	Petfood	89,092	0.6	51.5
2401	Tobacco unmanufactured	14,561	27	65.9
4407	Wood sawn/chipped/sliced	237,665	0.6	53.1
4408	Veneer sheets/sheets of plywood	13,345	8	25.2
5201	Cotton not carded or combed	59,813	2	79.0

Source: Customs Administration (www.cs.mfcr.cz under "zahranicni obchod" - foreign trade, then available in English)

Demographic Developments and Their Impact on Consumer Buying Habits

The number of single and childless households are on the rise. Primarily due to young people waiting longer before they have a family and more women entering the professional job market. The result is a higher demand for convenience products and frozen foods. Recently fresh, chilled, ready-made meals

have become popular. Additionally, with the boom in hypermarkets and larger home refrigerators, once-a-week food shopping is quickly replacing daily purchases of fresh food items.

Consumer Food Market

Food Expenditures

Czechs typically spend between 21-31% of their total disposable income on food. Per capita food consumption in the Czech Republic in 1999 (2000 not available) was \$490.

Food Consumption

For comparison of changes in eating habits, the following table shows consumption of various kinds of foodstuffs in 1996 and 1999 (more current data are not yet available from the Czech Statistical Office).

The biggest changes include a drop of red meat consumption (pork fell by 10%, beef by 32%), which is compensated by an increase in sales of poultry by 50% in the last 5 years and an increase in vegetable consumption by over 7%. The two main reasons for these changes are: higher prices for red meats and a trend toward healthier eating.

Item	Consumption in kg per capita in 1996	Consumption in kg per capita in 1999
Meat total	85.3	83
out of which: Pork	49.2	44.7
Beef	18.2	13.8
Veal	0.3	0.2
Poultry	13.6	20.5
Fish total	5.2	5.2
Fats and oils	22.8	25.5
Vegetable edible fats and oils	15.8	16.4
Milk and milk products	199.2	207.3
Eggs (pieces)	276	297
Cereals	149.8	135.2
Wheat flour	87.0	86.3
Pasta	4.5	5.6
Rye flour	18.6	11

Bread	58.4	55.2
Rice	5.0	4.3
Sugar	39.5	37.1
Potatoes	77.2	75.9
Pulses	2.0	2
Vegetables	79.5	85.3
Fruit	73.5	75.6
Alcoholic beverages (pure ethanol) and spirits	17.5	18.2
Beer	157.3	159.8
Wine	15.8	16.1
Non-alcoholic beverages	127.0	180

Advantages and Challenges for U.S. Suppliers on the Czech Market:

Advantages	Challenges
There has been a boom in large hypermarkets that carry up to 30,000 food items.	U.S. exporters have to compete with West European companies that are flooding the Czech market with their products.
The growth in the number of fast food restaurants (McDonald's, Pizza Hut, KFC), more expensive restaurants (TGI Friday's, American Grill) and bars serving food.	Czech importers usually do not import directly due to small quantities - they tend to purchase through European brokers and this increases costs and retail prices.
Fish consumption is relatively low (it is a landlocked country) but fish products are readily accepted by consumers. This represents a good opportunity for U.S. exports of salmon, lobster and other seafood.	The distance to this market may make shipping some items costly.
Interest and willingness of Czech consumers to try new food products.	Appreciation of U.S., which however in the last weeks has declined.

In-store promotions are considered to be a cost effective way to introduce or promote products.	The Czech Republic is harmonizing its legislation with the EU and food products containing GMO's will have to be labeled beginning January 2002.
Large numbers of European and American tourists that often buy foods they are familiar with.	Decreasing population (by 0.2% each year since 1994).
Improving economic situation.	

II. EXPORTER BUSINESS TIPS

Local Business Customs

The Czech system of duties imposed on imports is transparent and stable and the customs system generally respects the country's obligations in the WTO. Agricultural products, which are considered 'sensitive' commodities in the Czech Republic, are protected by higher tariffs ranging from 50 percent to 200 percent. However, in order to preserve competition in the Czech market and expand the range of products, some kinds of goods can be imported at lower tariffs within tariff rate quotas (TRQ). These quotas are set for one calendar year and are used automatically until they are exhausted.

General Consumer Tastes and Preferences

The following are trends and points to consider with regard to Czech consumer tastes and preferences:

- Typical Czech cuisine is quite heavy, usually consisting of meat and dumplings with a sauce. Traditionally, there has been a relatively high rate of red meat consumption and a low rate of vegetable consumption. There is, however, a trend toward healthier eating which includes lighter meals and international cuisines. This is accompanied by an increase in the consumption of fruits, vegetables, fish, poultry, vegetable oils and margarine.
- Fish consumption is relatively low in comparison with meat consumption. However, fried carp is a widespread and traditional Christmas Eve dish.
- Organic foods are available in supermarkets and specialized stores but there is not yet a significant consumer demand for these goods.
- With the arrival of international retail chains, ethnic cuisines (e.g., Tex-Mex) are becoming more well known and popular.

Food Standards and Regulations

Food Law no. 110/97 effective since January 1998, established basic rules for food production in the Czech Republic. It is available in English on the Internet: www.czpi.cz. The law has been amended several times, concerning the treatment of certain product classes (e.g., frozen products, meat and fish, dried fruits and nuts, tobacco, fresh fruits and vegetables, sweeteners, non-alcoholic beverages, coffee and tea) and food safety (the special treatment of foods (radiation), microbiological requirements, etc).

The Law 110/97 was amended last year changing the labeling of genetically modified foods as of January 2002 (see [EZ 1016](#) for details).

The Czech Republic passed a Law on Genetically Modified Organisms (GMOs), which has been in effect since January 2001.

General Import and Inspection Procedures

All imported products must comply with Czech food safety regulations (Food Law 110/97 along with the relevant amendments). Products of animal origin are subject to certification and the State Veterinary Administration has specific requirements for importing poultry, beef, pork, horse meat, and fish products. These products must be accompanied by the appropriate U.S. Department of Agriculture Food Safety and Inspection Service (FSIS) certificate. Fresh/frozen red meat and poultry are not eligible for export from the U.S. at this time (go to <http://www.fsis.usda.gov/OFO/export/explib.htm> for a current listing of certification requirements).

Veterinary law (no. 166/1999), effective since September 28, 1999, introduces administrative fees for veterinary checks on animals, animal products, and fodder imported into the Czech Republic. The fee for a veterinary check per metric ton of live animal is 170 CZK. The fee for one metric ton of animal product and fodder is set at 110 CZK. The minimum fee per consignment is 1,120 CZK and the maximum 11,900 CZK.

The Czech Agricultural and Food Inspection Service (CZPI) is a government organization that regulates food safety for products that have already been imported and are being sold in stores, restaurants etc. CZPI inspects the quality of the foods including its; shelf life, expiration dates, prices and other characteristics.

Tariffs and tariff rate quotas (TRQs)

Information regarding the fill rate of a particular TRQ is published regularly and can be found on the Internet at: www.cs.mfcr.cz. TRQs are generally administered on an MFN basis (i.e. they are not earmarked for a specific country). TRQs apply to the import of the following commodities: live bovine animals, meat of bovine animals, live swine, meat of swine, live sheep, mutton, poultry, meat of offal, milk and cream, yoghurt, butter, potatoes, fresh grapes, wheat, barley, corn, starches, rape seeds, sunflower seeds, sunflower oil, rape oil, margarine, glucose, pasta, ice cream, waters containing added sugar, sparkling wine, wine of grapes, ethyl alcohol, spirits, dextrans and other modified starches, cane molasses, sugar beet molasses.

Taxes

The Czech Republic has two VAT rates: 5% on foodstuffs, and 22% on tobacco, alcoholic beverages and seafood. VAT for public catering was reduced from 22% to 5% in April 2000. In addition to the VAT, some products are subject to excise tax. The following list shows the 2001 rates for selected products:

cigars and cigarillos	0.36 CZK/piece + 5% from retail price
cigarettes	0.36 CZK/piece + 22% from retail price

beer	24 CZK/hectoliter for each percent of original malt extract (e.g. 10% beer = 240 CZK, 12% beer = 288 CZK)
alcohol and spirits	234 CZK/liter
grape wines	2.5 CZK/liter
fortified wines	16.40 CZK/liter
sparkling wines	23.40 CZK/liter

A listing of the product categories subject to excise taxes was published in the government's Excise Tax Act No. 587/1992 Col., a copy of which may be obtained through the American Embassy in Prague.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

The Food Retail Sector

The following are trends and points to consider in the Czech food retail sector:

- The total turnover in the food retail sector including sales of alcoholic beverages and tobacco is estimated around 8 billion USD a year.
- In the last few years there has been considerable concentration in the food retail sector, especially with the boom in hypermarkets (defined here as a store with floor space exceeding 2,500 square meters; however, in larger cities there are hypermarkets over 10,000 square meters). In 1996 there were only 2 hypermarkets and in 2001 there are 105 hypermarkets.
- The concentration is driving small retailers out of the market. On the other hand, hypermarkets have raised the level of service and professionalism in the sector. They offer home deliveries, longer opening hours (usually 9am - 9pm, some are open even 24 hours), as well as other services.
- Competition and the strong purchase power of large retailers has kept down retail prices, which has contributed to lower inflation.
- Large international retail chains (the U.K.'s Tesco, the Dutch Ahold, Germany's Globus and Kaufland, the French Carrefour, Belgium's supermarket chain Delvita, and Austria's Julius Meinl) have centralized buying departments, usually at a corporate headquarters. Purchasing agents are usually specialized by category of products (meat, fish, bakery, dairy, produce, dry products, canned products, beverages etc.).
- The range of food products in retail outlets includes both domestic and imported products. The larger and the more international a company is, the more imported products it carries.
- Hypermarkets have increased the consumption of fish and seafood products since most of them have large departments with fresh fish and seafood, including live fish in water tanks. Before that, fresh fish was available only in small specialized stores, out of which only the best ones still exist.
- Competition in the retail sector is getting stronger and stronger and in order to gain more market share, companies are cutting their costs significantly.
- The best market entry approach is to find a local importer/distributor who is already established in the large retail chains. Retailers usually do not like to import directly.

- There are many tourists and expatriates in the Czech Republic, especially in the capital city, Prague. They come mainly from Germany, Austria, U.S., Italy, and France. They like to shop in large supermarkets and hypermarkets and often purchase familiar international products.
- The large retail chains put a lot of emphasis on marketing and promotion, including big sales after the holidays, constant promotion of certain products supported by flyers, tastings of products etc.

The Hotel, Restaurant, and Institution (HRI) Sector

The following are trends and points to consider in the Czech HRI sector::

- The total turnover in HRI food service sector is estimated at around 8 billion USD a year.
- The trend towards concentration in the retail grocery sector has just started in the HRI sector. This sector is comparatively untapped.
- About 80% of restaurants and institutions prepare meals themselves and buy ingredients from various suppliers, since there are no wholesaler specializing in the HRI sector. About ten percent of HRI establishments purchase ready meals from international caterers (e.g. Sodexho, Eurest, GTH etc.). Another ten percent purchase from domestic companies.
- According to Sodexho, one of the major catering companies in the Czech Republic specializing in institutional catering, about half of their turnover comes from sales to organizations with cafeterias for their employees, the other half comes from state owned institutions (schools, hospitals).
- Catering companies do not import directly, but through large importers and wholesalers.
- There is a trend toward healthier eating, which means that typically heavy Czech cuisine is being substituted with various lighter international cuisines (Italian, French, Chinese, Indian, and Mexican restaurants are becoming more popular) and more fruits and vegetables are being made available.
- Fast food restaurants were quickly established after the political changes in 1989 and several American firms are well established and successfully operating in the Czech Republic (e.g. McDonald's, Pizza Hut, Kentucky Fried Chicken, etc.).

The Food Processing Sector

The following are trends and points to consider in the Czech food processing sector:

- The total turnover in food processing sector is around 7 billion USD a year.
- With almost twenty percent of total industrial output, food processing is one of the most important sectors of the Czech economy. Production of pasta, cheese, and vegetable oils have seen the largest growth.
- Most food processing companies have been privatized, with the exception of several strategic companies (e.g. Budejovicky Budvar which produces Czech Budweiser Beer). State owned companies have a small and declining share of the food processing industry.
- The structure of ownership for privatized food processing companies is as follows: public shareholding companies (64%), limited companies (30%), other (6%).
- While most of the food processing companies are Czech-owned, some have been bought by large international companies (e.g. Tabak is owned by Phillip Morris, Cokoladovny by Nestle, Plzensky

Prazdroj was bought by South African Breweries from Japanese investment company Nomura, and Prague Breweries sold by British Bass to Belgium Interbrew).

- In order to compete with international exporters of food products, Czech companies are concentrating production efficiency, cutting surplus capacity, and improving equipment and technology. These structural changes are being facilitated by vertical integration through cooperation among processors in related industries, such as malt houses with breweries, grain mills with bakeries, and livestock producers with meat, poultry, and dairy processors.

The following table show the structure of food processing companies by number of employees:

Number of employees	Number of companies in 1997	Number of companies in 1998	Number of companies in 1999	Number of companies in 2000
20 - 49	469	651	618	648
50 - 99	197	222	230	237
100 - 299	261	249	240	227
300 - 499	57	53	52	41
500 - 999	20	19	16	17
1000 and over	8	9	15	13
Total	1,012	1,203	1,171	1,183

Among the largest food producers and processors are: Tabak - Philip Morris (tobacco), Plzensky Prazdroj (beer), Cokoladovny (candy), Budejovicky Budvar (beer), Setuza, Lukana (vegetable oils), Kosteleeke uzeniny, Masokombinat Martinov (meat processing plants), Jan Becher (liquor), Jihoceske mlekarny, Olma, Danone (dairy products), Bohemia Sekt (sparkling wine), Unilever (margarine, ice-cream), Vitana (dried soups), Bohemia Chips (potato chips).

The following table shows the number of companies in 1998 and 1999 by category and industry share (based on turnover):

Production/Processing of:	Number of companies in 1999	Share of turnover in food industry in % in 1999	Number of companies in 2000	Share of turnover in food industry in % in 2000
Meat and meat products	219	21.2	215	18.9
Fish	8	0.6	10	0.7
Fruit and vegetables	31	2.1	33	2.3

Vegetable and animal origin fats and oils	8	4.9	9	4.8
Dairy products	83	14.8	84	15.7
Grain and starch	45	2.5	49	2.2
Livestock feed	79	6.9	81	7.3
Other foods	544	28.0	537	28.1
Beverages	154	19.0	165	20
Total	1,171	100	1,183	100

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

The following high value products are considered to have good market prospects:

Almonds
 Citrus
 Distilled liquor
 Dried prunes
 Frozen meals
 Juice concentrates
 Live lobster
 Peanuts, peanut butter
 Raisins
 Rice, wild rice, rice mixes
 Sauces and salsa
 Smoked salmon
 Tex-Mex products
 Tobacco products
 Wine

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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